



Executive Office

P.O. Box 942701

Sacramento, CA 94229-2701

Telecommunications Device for the Deaf - (916) 795-3240

(916) 231-3825 FAX (916) 231-7900

November 16, 2005

Deloitte & Touche, LLP
2868 Prospect Park Drive, Suite 400
Rancho Cordova, CA 95670

We are providing this letter in connection with your audits of the fiduciary net assets of the fiduciary funds, and the statement of net assets of the proprietary funds and the statement of changes in assets and liabilities of the agency fund of the California Public Employees' Retirement System ("the System"), a component unit of the State of California, as of June 30, 2005 and the related statement of changes in fund net assets of the fiduciary and proprietary funds and of cash flows for the proprietary funds for the year then ended, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, and whether the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of the fiduciary net assets of the fiduciary funds, the changes in assets and liabilities of the agency fund and the net assets of the proprietary funds and the related changes in fiduciary net assets and the operations and cash flows for the proprietary funds in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and other supplemental information accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and the notes include all disclosures required by laws and regulations to which the System is subject. The accompanying supplemental schedules are fairly presented in conformity with these standards. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations;
 - b. The financial statements properly classify all funds and activities;
 - c. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved;
 - d. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis;
 - e. Revenues are appropriately classified in the statement of activities;
 - f. Interfund and internal activity and balances have been appropriately classified and reported;
 - g. Deposits and investment securities are properly classified in category of custodial credit risk;
 - h. Capital assets are properly capitalized, reported, and, if applicable, depreciated; and
 - i. Required supplementary information is measured and presented within prescribed guidelines.
2. The System's management has made available to you, all of the following:
 - a. Financial records and related data for all financial transactions of CalPERS and for all funds administered by CalPERS. The records, books, and accounts, as provided to you record the financial and fiscal operations of all funds administered by CalPERS and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - b. Minutes of the meetings of the Board of Administration and committees of the Board of Administration of CalPERS, pertinent to the operation of the System or summaries of actions of recent meetings for which minutes have not yet been prepared.

- c. Amendments made to the Plan document, the trust agreement, or insurance contracts (if applicable) during the year, including amendments to comply with applicable laws.
 - d. Actuarial valuation reports and other reports prepared by the actuary for the System.
 - e. Amendments made to the California Public Employees Retirement Law (PERL) during the year, including amendments to comply with applicable laws.
3. We are responsible for compliance with local state and federal laws, rules and regulations and provisions of contracts relating to the System's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of: providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The System is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
 4. We have no knowledge of any fraud or suspected fraud affecting the System involving (1) management, (2) employees who have significant roles in the System's internal control, or (3) others where the fraud could have a material effect on the financial statements.
 5. We have no knowledge of any allegations of fraud or suspected fraud affecting the System received in communications from employees, former employees, plan participants, regulators, third-party service providers, or others.
 6. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting or administrative practices.
 7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.
 8. The System is a defendant in litigation involving individual benefit payment and participant eligibility issues and arising from its normal activities. In the event of an adverse decision, any payments awarded by the courts would be recovered by the System through prospective adjustments to the employer contribution rate. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the basic financial statements as a result of the ultimate outcome of these matters.
 9. We have filed the current versions of the System and trust documents with the appropriate agencies, as necessary.
 10. There are no matters (e.g., breach of fiduciary responsibilities, nonexempt party-in-interest transactions, loans or leases in default, events that may jeopardize the System's tax qualification status) that legal counsel has advised us that must be disclosed in accordance with the Department of Labor's Rules and Regulations for Reporting and Disclosure or Internal Revenue Code.

11. There were no reviews or inquiries by the IRS or other regulatory agency of the System's activities or filings since our last audit
12. We are not aware of any intention on the part of the System Sponsor to terminate the System or take any other action that could result in an effective termination or reportable event for the System. We are not aware of any occurrences that could result in the termination of the System.
13. There have been no unusual or infrequent events or transactions, including System amendments, occurring after the latest benefit information date but before issuance of the System's financial statements that might affect the usefulness of the System's financial statements when assessing the System's present and future ability to pay benefits.
14. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
15. The System believes that it has properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. The fair values of all derivatives and embedded derivatives that have been bifurcated have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at November 16, 2005.
16. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended at June 30, 2005 taken as a whole.
17. We believe that the actuarial assumptions and methods used by our actuaries for funding purposes and for measuring accumulated plan benefits are appropriate in the circumstances. We are responsible for the actuarial assumptions and methods used by the System's internal actuaries for funding purposes and for determining the actuarial present value of accumulated plan benefits. We have no knowledge or belief that would make such assumptions or methods inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the System's internal actuaries with respect to values or amounts derived and we are not aware of any matters that have impacted the objectivity of the System's internal actuaries.
18. We agree with the work of the actuaries in evaluating the liability for claims incurred, but not reported, for the Health Care Fund and for future policy benefits for the Long Term Care Fund and we have adequately considered the qualifications of the actuaries in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the actuaries with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the actuaries.

19. We agree with the work of the specialists in evaluating the appraised value of real estate investments held by the System and have adequately considered the qualifications of the specialists in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the actuaries.

Except where otherwise stated below, matters less than \$39,620,000 collectively for the Public Employees' Retirement Fund; \$57,440 for the Legislators' Retirement Fund; \$7,220 for the Judges' Retirement Fund; \$71,720 for the Judges' Retirement Fund II; \$197,260 for the Volunteer Firefighters' Fund, State Peace Officers Firefighters' Fund, Public Agency Deferred Compensation Program IRC 457, Replacement Benefit Fund, and Supplemental Contribution Program Fund; \$94,260 for the Public Employees' Health Care Fund, and Public Employees' Long Term Care Fund; \$107,720 for the Public Employees' Contingency Reserve Fund, and Public Employees' Deferred Compensation Fund; and \$1,694 for the Old Age and Survivors' Insurance Revolving Fund, individually are not considered to be exceptions that require disclosure for the purpose of the following representations. These amounts are not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

20. The following, to the extent applicable, have been appropriately identified, and properly recorded, and disclosed in the financial statements or supplemental schedules:
- a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which the System is contingently liable.
 - c. Investments, loans, or leases that are in default or that are considered to be uncollectible.
 - d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - e. All derivative financial instruments (e.g., futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments.
 - f. Financial instruments with significant individual or group concentration of credit risk.
 - g. Sales with recourse provisions.
 - h. All impaired loans receivable.

- i. Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.
 - j. Interfund transactions, including repayment terms.
 - k. Agreements or commitments to purchase or sell investment assets or to repurchase investment assets previously sold.
21. We do not have any plans or intentions that may affect the carrying value or classification of the System's assets and liabilities, nor are we aware of any such plans or intentions on the part of the System.
22. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the System's financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.
23. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
24. The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
25. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, System management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
26. The System has complied with all aspects of contractual agreements that would have an effect on the System's financial statements in the event of noncompliance.
27. No events have occurred subsequent to June 30, 2005 that require consideration as adjustments to or disclosures in the System's financial statements.
28. Risks associated with concentrations, based on information known to System management, that meet all of the following criteria have been disclosed in the financial statements:

- a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the System vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
29. The System is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. System management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
30. Provision has been made for losses to be sustained in the fulfillment of, or from inability to fulfill, any commitments to purchase or sell securities under forward-placement, financial futures contracts, and standby commitments.
31. With regard to the fair value measurements and disclosures of certain assets and liabilities, such as alternative and real estate investments, we believe that:
- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
 - b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.
 - c. No events have occurred subsequent to June 30, 2005 that require adjustment to the fair value measurements and disclosures included in the financial statements.
32. There have been no changes in the method or significant assumptions used to determine the actuarial present value of accumulated plan.
33. There were no omissions from the participants' demographic data provided to the System's actuary for the purpose of determining the actuarial present value of accumulated plan benefits, liability for claims incurred but not reported, postretirement benefit obligations, and other actuarially determined amounts reflected in the financial statements.
34. We believe that all expenditures that have been deferred to future periods are recoverable.
35. We have disclosed all contracts or other arrangements with the System's service organization. There were no communications from the System's third-party service organizations relating to noncompliance with the System's operations at those service organizations.
36. We believe that the current sources of funding for PERSCare and PERSChoice will be adequate to provide for benefits of the plans.

37. We believe that the System is properly classified as a component unit of the State of California for financial reporting purposes in accordance with GASB Statement No. 14.
38. We believe, based on the advice of legal counsel, that the State of California is legally obligated to provide contributions sufficient to pay benefits of the Judges' Retirement Fund when the benefits are due.
39. We have presented Management's Discussion and Analysis as Required Supplementary Information and have prepared such information on a basis consistent with the information included in the audited financial statements.
40. We have presented the required supplemental information prescribed by Government Accounting Standards Board No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and No. 30, Risk Financing Omnibus: an Amendment of GASB Statement No. 10. The methods of measurement and presentation of this information have not changed from those used in the prior period. This information is presented on a basis consistent with the audited basic financial statements.
41. We believe that the allocation of administrative expenses to the other funds administered by the System is based on a fair and reasonable methodology and the assumptions used were the most appropriate in the circumstances.
42. The debt associated with System's investments in real estate is recorded appropriately on the financial statements of the real estate investments.

FRED BUENROSTRO
Chief Executive Officer

GLORIA MOORE ANDREWS
Deputy Executive Officer, Operations

CURTIS HOWARD
Assistant Executive Officer
Administrative Services Branch

RUSSELL G. FONG, Chief
Fiscal Services Division